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ECONOMIC DEVELOPMENT AND GOVERNANCE

THE CREDIT POLICY IMPROVEMENT PROJECT (CPIP)

OBJECTIVES

- 1.) the effective functioning of the government policy making agency on credit, the NCC;
- 2.) the rationalization of the government's policies on savings, credit and loan guarantees;
- 3.) the creation of an enabling policy environment that will facilitate the increased participation of the private sector and microfinance institutions in the provision of financial services to all sectors of the economy, including the basic sectors.

PROGRAMS

To achieve its objectives, CPIP has two major components: i.) policy review and analysis of all government credit policies and technical support for the implementation of policy changes and ii.) advocacy to promote the rationalization of government directed credit and loan guarantee programs and to encourage the implementation of viable alternatives.

BACKGROUND/HISTORY

Despite the proliferation of DCPs and the large amount of government and donor resources allotted for these programs, lack of access to credit by the basic (poor) sectors continued to be a major problem, especially in the rural areas. Continued implementation of DCPs resulted in waste of scarce government resources and major fiscal costs for the government. In view of this, a series of discussions among non-government organizations, people's organizations, academia, concerned government agencies and government financial institutions led to the drafting and submission of a resolution to the President recommending the rationalization of all government directed credit programs to ensure that the poor will have greater access to credit.

Recognizing the merit of these initial discussions and realizing that rationalization of DCPs could be a major task, then President Fidel V. Ramos created the National Credit Council (NCC) on October 8, 1993, through Administrative Order No. 86. This AO specifies the membership of the NCC to include representatives from concerned government agencies, government financial institutions, non-government organizations and people's organizations. The NCC was given the following mandates: i.) rationalize and optimize government credit programs; ii.) develop a credit delivery system that incorporates capability upgrading and institutional strengthening mechanisms; iii.) encourage greater private sector participation in the delivery of credit; and iv.) define and rationalize the role of guarantee programs and guarantee agencies.

The AO initially designated the heads of the Department of Finance (DOF) and the Land Bank of the Philippines (LBP), a government-owned bank, as chairperson and co-chairperson of the NCC. The LBP was also designated as the secretariat for the Council. In 1995, the Philippine Institute for Development Studies (PIDS) conducted a review of the capabilities and activities of the NCC. The study found that the LBP was not the most appropriate agency to act as secretariat to the NCC due to its active involvement in credit delivery. The study recommended transfer of secretariat functions from the LBP to the DOF in view of the latter's mandate to manage the financial resources of government in support of the country's development objectives. Hence, on February 6, 1996, Pres. Fidel V. Ramos issued AO 250 transferring the secretariat of the NCC from the LBP to the DOF.

To ensure the effective functioning of the NCC, the government requested technical assistance from the United States Agency for International Development (USAID). This technical assistance was initiated in December 1996 and has been aimed at helping the NCC, through its secretariat, rationalize government-sponsored credit and loan guarantee programs.

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PROJECT MANAGEMENT

The Chief of Party Credit Policy Improvement Program (CPIP)

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ACHIEVEMENTS

CPIP provided technical assistance to the NCC in the formulation, advocacy and implementation of the necessary credit policy reforms that are supportive of the following principles:

- Greater role of the private sector (MFIs) in the provision of financial services;
- Government provision of an enabling policy environment that will facilitate the increased participation of the private sector in the provision of financial services to the basic sector;
- Adoption of market-oriented financial and credit policies, e.g. market-oriented interest rates on loans and deposits;
- Non-participation of government line agencies in the implementation of credit and guarantee programs.

With technical assistance from CPIP, NCC initiated the formulation and eventual adoption of a number of critical credit policy reforms that contributed to the strengthening of the NCC as the GOP inter-agency body in charge of credit policy formulation and monitoring. These key policy measures are:

- Issuance of the National Strategy for Microfinance
- Enactment of the Social Reform and Poverty Alleviation Act
- Enactment of the Agricultural Fisheries Modernization Act;
- Issuance of EO 138;
- Enactment of the General Banking Act with specific provisions on microfinance;
- Enactment of the Barangay Microenterprise Business Act;

CPIP also provided technical and advocacy support for the establishment of an information infrastructure for transparency and other elements for effective regulation. This led to the following accomplishments:

- Establishment of the standard chart of accounts (SCA) and the development of the accompanying accounting manual for credit cooperatives and other types of cooperatives with credit services;
- Establishment of the performance standards for credit cooperatives (COOP-PESOS) and other types of cooperatives with credit services.
- Development of the framework for the effective regulation and supervision of credit cooperatives and other types of cooperatives with credit services;
- Establishment of the regulatory framework for microfinance
- Establishment of the performance standards (PESO) for all types of microfinance institutions (MFIs)